

Message Text

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PAGE 01 EC BRU 01058 01 OF 02 192054Z

72

ACTION EUR-25

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PASS TREASURY, FRB, CEA

E. O. 11652: N/A

TAGS: ENRG, EFIN, EEC

SUBJ: EC COUNCIL (FINANCE MEETING) FEBRUARY 18,
1974

REFS: A. EC BRUSSELS 7035 (1973)

B. EC BRUSSELS 0608

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PAGE 02 EC BRU 01058 01 OF 02 192054Z

C. EC BRUSSELS 0472

D. EC BRUSSELS 0645

E. EC BRUSSELS 1025

1. SUMMARY. IN A MEETING WITHOUT SURPRISES THE EC COUNCIL (FINANCE) FORMALLY ADOPTED FOUR RESOLUTIONS RELATED TO ECONOMIC AND MONETARY UNION THAT IT HAD ALREADY APPROVED IN PRINCIPLE ON DECEMBER 17, 1973 (REF A); TOOK NOTE OF THE COMMISSION'S REPORT ON THE ECONOMIC IMPACT OF THE ENERGY SITUATION (REF B); ASKED THE MONETARY AND CENTRAL BANK GOVERNORS' COMMITTEES TO STUDY THE COMMISSION'S "URGENT MEASURES" PROPOSALS (REF C) ON GOLD AND CAPITAL BORROWING; AND URGED THE MEMBER STATES TO AVOID COMPETITIVE CURRENCY DEPRECIATIONS AND RESTRICTIVE TRADE MEASURES. THE GERMANS AND DUTCH REPORTEDLY OPPOSED A SOLUTION TO GOLD OUTSIDE AN INTERNATIONAL CONTEXT, THOUGH SOME MEMBER STATES FAVORED A REGIONAL APPROACH IF NO INTERNATIONAL SOLUTION WAS FORTHCOMING. THE WASHINGTON ENERGY CONFERENCE HAD NO DISCERNABLE IMPACT ON THE COUNCIL MEETING EXCEPT POSSIBLY A SLIGHT STIFFENING IN THE ATTITUDE OF THE GERMANS TOWARDS WHAT THEY REPORTEDLY CONSIDER UNREALISTIC COMMUNITY INITIATIVES -- PARTICULARLY THOSE WITH INTERNATIONAL RAMIFICATIONS. END SUMMARY.

2. MEETING FOR THE FIRST TIME SINCE THE FLOAT OF THE FRENCH FRANC, THE COUNCIL FORMALLY ADOPTED THE FOUR RESOLUTIONS WHICH IT HAD APPROVED WHEN IT LAST MET ON DECEMBER 17, 1973 (REF A). THESE DEALT WITH: A) STRENGTHENING THE EXISTING SHORT-TERM MONETARY SUPPORT SYSTEM; B) PROMOTION OF STABILITY, GROWTH AND FULL EMPLOYMENT; C) ACHIEVEMENT OF GREATER CONVERGENCE OF ECONOMIC POLICIES, AND D) THE CREATION OF AN ECONOMIC POLICY COMMITTEE. FORMAL APPROVAL OF THESE RESOLUTIONS WAS MADE POSSIBLE WHEN THE IQFYQSNS LIFTED THEIR RESERVE. A FIFTH RESOLUTION DEALING WITH THE ENTIRE SECOND STAGE OF ECONOMIC AND MONETARY UNION IS STILL UNDER AN ITALIAN RESERVATION PENDING A COUNCIL DECISION ON THE REGIONAL FUND (REF X).

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PAGE 03 EC BRU 01058 01 OF 02 192054Z

3. THE MINISTERS DISCUSSED THE ECONOMIC SITUATION OF THE COMMUNITY IN THE LIGHT OF THE ENERGY CRISIS AND THE FRENCH FLOAT. ACCORDING TO PERM REP SOURCES, ONLY THE BELGIANS WERE OVERTLY CRITICAL OF THE FRENCH DECISION TO FLOAT. BELGIAN FINANCE MINISTER DE CLERCQ TOLD THE COUNCIL --AND LATER RELEASED HIS STATEMENT TO THE PRESS-- THAT THE FRENCH MOVE WAS A DEFINITE SETBACK FOR ECONOMIC AND

MONETARY UNION, OF WHICH THE ONLY PART REMAINING WAS A SHAKY COMMON AGRICULTURAL POLICY. (IN AN APPARENT ALLUSION TO THE FRENCH, DE CLERCQ SAID THERE WAS A FUNDAMENTAL LACK OF COHERENCE BETWEEN THE DESIRE TO CREATE EUROPE VIS-A-VIS THE OUTSIDE WORLD WHILE NOT CONTRIBUTING INTERNALLY TO THE CREATION OF THIS EUROPE.) APPARENTLY BECAUSE OF THE ABSENCE OF BARBER, GISCARD FAILED TO PRESENT NEW FRENCH PROPOSALS ON EC MONETARY COOPERATION. THESE WERE EXPECTED TO DEAL WITH SOME FORM OF CONCERTED FLOATING AS AN ALTERNATIVE TO THE EC "SNAKE", AS SUGGESTED BY GISCARD IN AN INTERVIEW IN THE INTERNATIONAL HERALD TRIBUNE OF FEB. 11 (REPORTED IN PARIS 3608-NOTAL).

4. IN CONSIDERING THE ECONOMIC REPRECUSIONS OF THE ENERGY CRISIS, THE COUNCIL DID NOT CONTEST THE COMMISSION'S ASSESSMENT (REF B), WHICH PREDICTED REAL GROWTH FOR THE EC IN 1974 OF 2-3 PERCENT AND A RATE OF INFLATION IN EXCESS OF 10 PERCENT. INDIVIDUAL MEMBER STATES, HOWEVER, HAD DIVERGENT IDEAS ON ECONOMIC POLICIES TO BE FOLLOWED. THE ONLY SURPRISE IN THIS RESPECT WAS THE DUTCH EMPHASIS ON REFLATION OF DEMAND THROUGH APPROPRIATE FISCAL MEASURES - WHICH APPEARS TO BE A NEW DEPARTURE IN DUTCH POLICY. THE GERMANS AS USUAL STRESSD DEMAND RESTRAINT AND THE FIGHT AGAINSTHINFLATIONS.

5. THE COMMUNIQUE ISSUED FOLLOWING THE COUNCIL MEETING STATES THAT "THE GOVERNMENTS OF THE MEMBER STATES UNDERTAKE TO HOLD DETAILED CONSULTATIONS ON THE EVOLUTION OF EXCHANGE RATES, ON INTEREST RATE POLICIES, ON WAYS TO TAP THE INTERNATIONAL FINANCIAL LIMITED OFFICIAL USE

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PAGE 04 EC BRU 01058 01 OF 02 192054Z

MARKETS AND ON THE UTILIZATION OF RESERVES --ON THE BASIS OF THE (COUNCIL'S DECISION ON THE ATTAINMENT OF A HIGHER DEGREE OF CONVERGENCE OF THE ECONOMIC POLICIES OF THE MEMBER STATES." ACCORDING TO A PERM REP CONTACT, SCHMIDT SAID THAT IN VIEW OF THE CONSIDERABLE DIVERGENCE IN THE DIRECTION OF DEMAND MANAGEMENT POLICIES RECOMMENDED BY THE MEMBER STATES, HE WAS NOT OPTIMISTIC THAT INCREASED COOPERATION BY THE MEMBER STATES TO ACHIEVE CONVERGENCE OF THEIR POLICIES WOULD TAKE PLACE.

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PAGE 01 EC BRU 01058 02 OF 02 201443Z

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ACTION EUR-25

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INFO AMEMBASSY

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LIMITED OFFICIAL USE SECTION 2 OF 2 EC BRUSSELS 1058

6. AS EXPECTED, THE COUNCIL REACTED TO THE COMMISSION'S "URGENT MEASURES" PROPOSAL (REF C) BY ASKING THE MONETARY AND CENTRAL BANK GOVERNORS' COMMITTEES TO EXAMIN THE COMMISSION'S RECOMMENDATIONS AND REPORT BAK TO THE COUNCIL AS SOON AS POSSIBLE. (IT WILL BE RECALLED THAT THE COMMISSION'S PROPOSAL ON GOLD CALLED FOR THE TWO COMMITTEES TO GIVE AN OPINION ON A NEW PRICE FOR TRANSFERS OF GOLD BETWEEN CENTRAL BANKS.) THERE WAS A BRIEF DISCUSSION OF THE GOLD QUESTIONIN WHICH
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PAGE 02 EC BRU 01058 02 OF 02 201443Z

WE UNDERSTAND THE ITALIANS AND THE BELGIANS, WHILE EXPRESSING THEIR PREFERENCE FOR AN INTERNATIONAL SOLUTION, SAID THEY WERE INCLINED TO STUDY A REGIONAL APPROACH IF NO PROGRESS WAS MADE IN AN INTERNATIONAL FORUM. THE FRENCH SAID COMMUNITY AND INTERNATIONAL SOLUTIONS SHOULD BE PURSUED CONCURRENTLY. ON THE OTHER HAND, THE GERMANS AND THE DUTCH REMAINED STEADFAST IN THEIR BELIEF THAT THERE COULD BE NO REGIONAL APPROACH THAT WAS INCOMPATIBLE WITH AN INTERNATIONAL SOLUTION.

7. FOLLOWING THE COUNCIL MEETING, THE FINANCE MINISTERS HAD AN INFORMAL DINNER WITH THE EC CENTRAL BANK GOVERNORS. WE UNDERSTAND THEY DISCUSSED GOLD AND RECYCLING OF OIL REVENUES, BUT THAT THE DISCUSSION WAS PRELIMINARY SINCE OFFICIAL STUDIES ON THESE PROBLEMS BY THE MONETARY AND CENTRAL BANK GOVERNORS' COMMITTEES HAVE NOT YET BEEN MADE.

8. COMMENT: THE COUNCIL TOOK NO NEW DECISIONS OF SUBSTANCE AND MADE NO IMPORTANT NEW COMMITMENTS. THE MERE FACT OF THE MEETING, HOWEVER, IS MILDLY ENCOURAGING TO SOME OF OUR CONTACTS, FOR THERE WAS TALK OF POSTPONING IT AFTER THE WASHINGTON ENERGY CONFERENCE. MOREOVER, THE ATMOSPHERE WAS BUSINESS-LIKE. FOUR RESOLUTIONS HAVE NOW BEEN FORMALLY APPROVED WHICH, IF THE MEMBER STATES WERE TO TAKE THEM SERIOUSLY, COULD CONSTITUTE PROGRESS TOWARD THE GOALS OF ECONOMIC AND MONETARY UNION. AT THIS POINT, HOWEVER, NO ONE EXPECTS THE MEMBER STATES TO MOVE FROM THE STAGE OF FORMAL RESOLUTIONS TO CONCRETE ACTIONS. PERHAPS THE BEST EXAMPLE OF THIS ATTITUDE IS SCHMIDT. WHEREAS GISCARD'S ATTITUDE AT THE COUNCIL WAS DESCRIBED AS POSITIVE, SCHMIDT, ACCORDING TO ALL OUR SOURCES, WAS SARCASTIC AND QUESTIONED THE UTILITY OF SOME OF THE RESOLUTIONS.

9. SO FAR AS WE CAN JUDGE, THERE WAS NO DIRECT IMPACT OF THE WASHINGTON ENERGY CONFERENCE ON THE COUNCIL. INDEED, OUR CONTACTS TELL US THE LIMITED OFFICIAL USE
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PAGE 03 EC BRU 01058 02 OF 02 201443Z

CONFERENCE WAS NEVER MENTIONED. IT IS CONCEIVABLE, HOWEVER, THAT SCHMIDT'S APPARENT REFUSAL TO TAKE SERIOUSLY COMMUNITY INITIATIVES ON ECONOMIC COOPERATION AS WELL AS HIS INSISTENCE ON SEEKING SOLUTIONS IN AN INTERNATIONAL FRAMEWORK (FOR EXAMPLE, GOLD) MAY HAVE BEEN REINFORCED AS A RESULT OF THE CONFERENCE (REF E). ANOTHER ILLUSTRATION OF SCHMIDT'S ATTITUDE WAS HIS REACTION TO THE TIMING OF THE NEXT

COUNCIL (FINANCE) MEETING. WHEREAS THER WAS SOME
SUPPORT FOR ANOTHER MEETING IN MARCH, SCHMIDT INSISTED
THERE WAS ABSOLUTELY NO POINT IN A COUNCIL (FINANCE)
MEETING BEFORE THE END OF APRIL OR ERARLY
MAY, AND THAT IS WHERE THE MATTER WAS LEFT. END
COMMENT.
GREENWALD

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